ACCOUNTING FOR PROFITS

By Tim Gulling

OBAMACARE CHANGES

IMPACT IMPLEMENTATION AND TAXATION

Most of you have heard a lot about the Affordable Care Act (commonly known as "ObamaCare"), but recent changes may have raised more questions. Following is a summary of the most important tax developments occurring in the past three months that may affect you, your family, your investments and your livelihood.

The latest development is that employer health care reporting and mandate payments were postponed. On July 2, the Obama Administration announced (on White House and Treasury websites) that it will provide an additional year, until Jan. 1, 2015, before the mandatory employer and insurer reporting requirements under (ACA) begin.

Since this will make it impractical to determine which employers do not provide minimum essential health coverage – and therefore would owe shared responsibility payments under Code Sec. 4980H for 2014 – transition relief is also being extended for those payments. Any employer-shared responsibility payments will not apply until 2015.

Health care 'exchanges'

Private company insurance plans are offered through a marketplace or exchange, run by a state or the federal government. Exchanges must carry out a number of functions, including determining eligibility and enrolling individuals in appropriate plans. In general, health plans offered through exchanges will provide comprehensive coverage and meet the private market reforms specified in the ACA.

The initial open enrollment period for all exchanges will begin on Oct. 1, 2013, and all exchanges are to be operational and offering coverage on Jan. 1, 2014.

Health care premium tax credits

To make exchange coverage more affordable, qualifying individuals will receive premium assistance in the form of tax credits. Some recipients of these premium credits also may qualify to receive subsidies to help cover their cost-sharing expenses.

The Internal Revenue Service (IRS) has issued proposed regulations on the health care premium tax credit, which applies for tax years ending after Dec. 31, 2013. The credit is designed to make health insurance affordable to individuals with modest incomes (i.e., between 100% and 400% of the federal poverty level) who are not eligible for other qualifying coverage, such as Medicare, or "affordable" employer-sponsored health insurance plans that provide "minimum value." It is available for individuals who purchase affordable coverage through the "affordable insurance exchanges."

In general, an employer-sponsored plan is not considered affordable if the employee's required contribution to the plan exceeds 9.5% of his household income for the tax year.

Certain employers must provide written notice to employees about health insurance coverage options available through the exchange, and the following items must be adhered to:

• Employers must provide written notices to employees to whom the Fair Labor Standards Act applies. Generally, this means an employer that employs one or more employees who are engaged in, or produce goods for, interstate commerce.

• Employers must provide a notice to each employee, regardless of plan enrollment status (if applicable), or of part-time or full-time status. Employers do not have to provide a separate notice to dependents or other individuals who are, or may become, eligible for coverage under any available plan.

• Employers must provide the notice to each new employee at the time of hiring beginning Oct. 1, 2013. For 2014, a notice is considered to be provided at the time of hiring if it is provided within 14 days of an employee's start date.

Higher Medicare tax for some

Some additional taxes enacted for 2013 under "Obamacare" include a 0.9% Medicare (hospital insurance, or HI) tax, applying to individuals receiving wages in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately). The tax is in addition to the regular Medicare rate of 1.45% on wages received by employees. The tax only applies to the employee portion of the Medicare tax.

This tax also applies to self-employment income exceeding the same thresholds as apply for employees. But, the $200,000, $250,000, and $125,000 thresholds are reduced by any wages taken into account in determining the additional 0.9% HI tax on wages.

Part II of the additional Obamacare taxes will be that taxpayers will pay an additional 3.8% Medicare tax on the lesser of the taxpayer's "net investment income," which is income on interest, dividends and capital gains with regards to investments and net rental income.

If you have questions regarding this topic, please feel free to give me a call. ❐

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